

1960

# Federal Welfare and Pension Plans Disclosure Act

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## Recommended Citation

Quarterly, Vol. 06, no. 4 (1960, December), p. 20-27

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# The Federal Welfare and

*by Gwain H. Gillespie  
Detroit*

**A**PPROXIMATELY 84,000,000 PERSONS currently rely upon present or future benefits from various types of pension or welfare plans. Contributions to these plans amount to roughly \$10 billion annually, and current funds for pension plans alone have been estimated to be as high as \$30 billion, in comparison with about one-third of that amount ten years ago. Periods of rapid growth and increased importance of areas of commerce have often been followed by legislation for control or regulation by Congress. Because of this fact, and also because reports of abuse or mismanagement through negligence or willful intent, although certainly isolated and unusual, appear in the public press, few were surprised when Congress enacted the Federal Welfare and Pension Plans Disclosure Act effective as of January 1, 1959.

It was not the intention of Congress to regulate pension and welfare plans but to leave the policing of the operations of the plans to the participants. Rather, as the title of the Act indicates, the intent of Congress was to make mandatory the disclosure of information which

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## Pension Plans Disclosure Act

members of Congress felt was necessary to enable a participant to evaluate the operations of the plans. In this legislation Congress has continued to follow the philosophy evident in the enactment of the Securities Act of 1933, the Securities Exchange Act of 1934, and subsequent similar acts.

The Act provides for public disclosure of information relating to private welfare and pension benefit plans covering more than 25 employees.

For purposes of the Act:

“Employee welfare benefit plan means any plan, fund, or program which is communicated . . . in writing” and provides “medical, surgical or hospital care or benefits, or benefits in the event of sickness, accident, disability, death or unemployment.”

“Employee pension benefit plan means any plan, fund or program which is communicated . . . in writing” and provides

"retirement benefits." This definition includes profit-sharing plans which provide benefits at or after retirement.

The plans specifically excluded from the application of this Act, in addition to plans covering not more than 25 employees, are those (1) administered by a governmental agency, (2) maintained solely for compliance with workmen's compensation or unemployment compensation disability laws, and (3) relating to fraternal organizations.

Two reports are required under the Act. A description of the plan is to be filed with the Department of Labor within 90 days after the establishment of the plan. An annual report of each plan must be filed within 120 days after the end of the fiscal or policy year of the plan.

Not only must copies of the plan description and the annual report be filed with the Secretary of Labor, but the reports must be available in the principal office of the plan and copies must be furnished to participants upon request.

Our services will be required principally in connection with the information contained in the annual reports because such information is to be "sworn to by the administrator (of the plan), or certified to by an independent certified or licensed public accountant, based upon a comprehensive audit conducted in accordance with accepted standards of auditing." In general, the following information is to be included in the annual report:

1. Amount contributed by the employer or employers
2. Amount contributed by employees
3. Amount of benefits paid or furnished
4. Number of employees covered
5. Summary statements of assets, liabilities, receipts, and disbursements
6. Detailed statement of salaries, fees, and commissions charged to the plan.

Certain limitation or expansion of the above information is required depending upon whether the plan is a welfare or pension plan; is funded or unfunded; and, if funded, funded through a trust or by insurance.

The Department of Labor has published Form D-2 to assist administrators in the preparation of annual reports. The use of the form is

not required; however, its use is desirable for convenience in making comparisons, both by the Department and others. Where Form D-2 is not adequate, additional information can usually be inserted or attached. In preparing Form D-2 no attempt was made by the Secretary of Labor to prescribe the form and content of the independent public accountant's report.

***Impractical or even impossible . . .  
... to render an opinion***

The certification requirement under the Act could be interpreted to mean that the independent public accountant should take responsibility for all information in the annual report (other than a specific exclusion of that information received from banks or insurance companies subject to federal examinations). This interpretation is too broad because it may be impractical or even impossible to perform an examination and render an opinion on the annual report in total.

Certain of the information required in the annual report is merely a transcription or a summarization of portions of agreements or is a statement of practice. It is not possible for an accountant to examine or render an opinion on some of this information. For example, although it has been proposed that we should be familiar with actuarial assumptions in our examinations of pension funds, I do not think we can put ourselves in the position of approving or disapproving them.

Other items included in the annual report are merely an accumulation of statistical data, such as the number of employees covered under the plan. In some cases, especially where the employer is a client, we may be in the position of determining that this information is fairly stated; however, it may not be possible to do so if the plan includes the employees of a number of companies.

Schedules and other data, relating to fees, commissions, current and past service liabilities, etc., are received directly from other agencies (insurance companies, actuaries, agencies such as Blue Cross, etc.) and are generally not subject to examination by us.

Certain schedules require the reporting in more detail form of items included in the financial statements. In any event, our main concern will be with the financial statements.

When our report is attached to or relates to a prescribed form, considerable care must be taken so that the responsibility we are



assuming cannot be misinterpreted. Our report must be specific, not only regarding those statements or items for which we can and are willing to give an opinion, but also concerning those items which are not susceptible to examination or for which we did not obtain satisfaction.

The American Institute of Certified Public Accountants' Committee on Labor Union and Welfare Funds, while not formally adopting a form of report for this situation, did have general agreement on the form included in Carman G. Blough's column in the February 1960 *Journal of Accountancy*. This form is also included in the booklet *Special Reports* recently published by the Institute. It is my opinion that this form is excellent. However, the form concerns only the opinion on the financial statements, while it has been my experience that there are other items included in the annual report for which, with proper audit procedures, we can take responsibility.

### ***Example of a report on a pension plan***

The following is an example of an accountants' report recently issued on a pension plan funded through a trust:

We have reviewed the information contained in the accompanying annual report on Form D-2 of X Company Pension Plan.

In connection therewith, we have examined the summary statement of assets and liabilities of the Plan as at June 30, 1960, and the related summary statement of receipts and disbursements including reconciliation of fund balances for the year then ended included in the annual report. We have also examined the information included as Items 6 and 7 of Part I in the annual report. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying summary statement of assets and liabilities (Exhibit B-1) and summary statement of receipts and disbursements including reconciliation of fund balances (Exhibit B-2) present fairly the financial position of X Company Pension Plan at June 30, 1960, and the results of its operations for the year then ended in conformity with generally accepted

accounting principles applied on a basis consistent with that of the preceding year. Further, it is our opinion that Items 6 and 7 of Part I present fairly the information therein set forth.

The information contained in Parts I and III and Exhibit C of the accompanying annual report, other than those items discussed in the preceding paragraph, has been obtained from the records of the Plan or has been received directly from actuaries. Such information has not been subject to examination by us and accordingly we can accept no responsibility as to its accuracy; however, during the course of our review, nothing came to our attention which would indicate that this information is not fairly presented.

Item 6 relates to contributions by employer and employees and the number of employees covered under the plan. Item 7 relates to the amount of benefits furnished during the year. This accountants' report refers specifically to each Part or Exhibit included in the annual report to which it was attached.

We should attempt to arrive at a fairly standardized report for use in this instance in order to avoid confusion. The above opinion can be modified to fit almost any type of plan or situation.

Although it is not the purpose of this paper to delve into the actual examination of pension and welfare plans, this discussion cannot be left without the following caution:

Exceptional care must be taken in dealing with the administrators and trustees to define the scope of our examination. This definition should include not only the limits of what we propose to do, but also the degree of our responsibility, based upon our examination, in discovering fraud, improper interests, etc. The possibility of misinterpretation is increased because we are confronted with the all too frequent opinion of administrators and trustees that audits are primarily intended to disclose fraud and, in addition, we have present the broad requirement as to certification of the annual report included in the Act itself.

Simply stated: *We must be sure our client is not expecting more from our examination than we are prepared or willing to give.*

### ***Profession May Benefit from Legislation***

The primary benefit intended by Congress in the enactment of the

Federal Welfare and Pension Plans Disclosure Act was, of course, to assist participants and other interested parties to appraise the effectiveness of the plans and actions taken under the plans. It is also hoped that this public appraisal will deter dishonesty and mismanagement where it occurs. We should not forget that the public accountant may benefit in yet other ways.

The publication of the Act assists our profession in making inroads into what has generally been an undeveloped area. We have, of course, been performing examinations of some plans for a number of years, but it has been my impression that audits have been performed in the minority of pension plans and audits of unfunded plans have been performed in very few instances.

The mandatory publication of plan information strongly influences the client in his consideration of the public relations benefits of independent examinations.

In some cases, the cost of performing annual examinations of all plans relating to a particular employer may be too high for the company to justify. In those cases we should explore the possibility of examining plans on a cycle basis or, alternatively, every two or three years.

In those cases where the single employer of a plan is our client, benefits other than the results of the examination of the plan itself may accrue. We may discover cost savings which may be made both

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## The confirmation letter said . . .

by EDWARD C. DAVIS  
*New York*

**D**URING THE VISIT OF OUR REPRESENTATIVES to the branch accounting office of X Credit Company for the regular June, 1960 semi-annual audit, and as a result of follow-up work under our confirmation of receivables, Stephen Raftery uncovered an instance of fraud. The culprit was a contractor who had financed a property improvement plan loan with the New England branch of this company.

During our confirmation work a reply was received disclaiming any account with the finance company. The customer stated, "There must be some mistake. I have never had any dealings with X Credit Company, and do not owe them any money." The reply was given to the



in the administration of the fund and in the work performed by the employer's personnel in furnishing information for the plan. This discovery may be more likely where the plan is self-administered by the employer-client. We may also find methods of improving controls relating to the furnishing of such information which would not be disclosed in our normal examination of the financial statements of the employer.

We, as a profession, should look upon the enactment of this Act, not just as an additional regulation, but as another opportunity to show the value of a qualified professional certified public accountant's independent look at financial operations.

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"There must be some mistake!"

branch office to investigate. Mr. Raftery did not feel satisfied with the possible reasons offered as to why the customer disclaimed the account, and sent out a second request.

This second request was returned to us via "Certified Mail—return receipt requested" during the time we were completing our preliminary work. This reply also disclaimed any borrowings and stated that the writer had never heard of X Credit Company until he received our confirmation request.

When Mr. Raftery arrived at the credit company's branch office for the audit work in July, they gave him a letter—supposedly from the